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October 1990

SIGNS OF A SLUMPING ECONOMY BEGIN TO MOUNT

The latest batch of statistics on the U.S. economy suggests that the likelihood of recession has increased markedly in recent months. One has to search long and hard to find any signs of strength. It is important to keep in mind that the apparent deterioration in the economy's strength of late is not solely attributable to the tensions in the Middle East, though they have certainly played a role. Trends through the first seven months of this year were not impressive and clearly depicted a slow-growth economy. The passage of a *credible* budget and deficit-reduction agreement, probably paving the way for an easing of monetary policy on the part of the Federal Reserve, may brighten the outlook a bit. However, doubts concerning the September 30*th* budget agreement have surfaced in early debate.

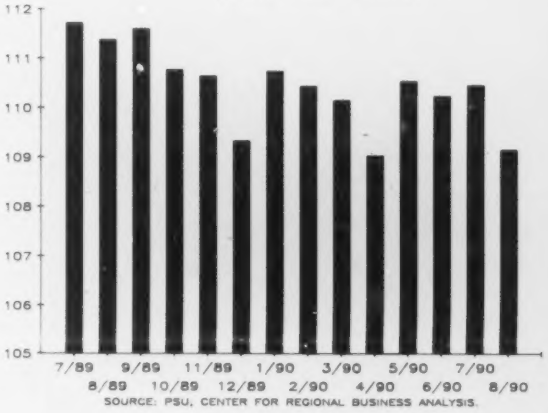
With this as a backdrop, **the outlook for Pennsylvania is not encouraging. Employment and job trends are showing no signs of improving. If anything, retail and construction trends are deteriorating. Factory output, at best, is holding steady after short-term fluctuations are averaged out. The Pennsylvania index of leading indicators has declined in five of the past seven months, including a sizeable decline in August (chart).**

Designating peaks and troughs in the national business cycle is as much art as it is science. For states, the designation is, arguably, more art than science. Partly because of a lack of timely data, it is extremely difficult to identify turning points in state economies until well after the fact. **Suffice it to say that current conditions in the Pennsylvania economy are arguably the weakest they have been since the onset of recovery more than seven years ago.**

August cannot be classified as an encouraging month on the employment and jobs front. The seasonally adjusted level of employment in Pennsylvania, at right around 5.5 million, is at its lowest reading since October 1988 and is off by 220,000 from the March 1989 record high. The jobless rate, at a seasonally adjusted 4.9 percent, is up 0.5 percentage point from a year ago and continues to trend upward after several years of decline. A year-to-date increase of 13 percent in initial claims for unemployment benefits, a leading indicator of jobless trends, suggests that the likelihood of short-term improvement on the unemployment front is minimal. Trends in the labor force also point to weakness on the employment front and in the overall economy in Pennsylvania. Typically, labor force growth tends to move positively with general economic conditions. The Pennsylvania labor force has declined in six of eight months so far this year, including in each of the past five months (chart).

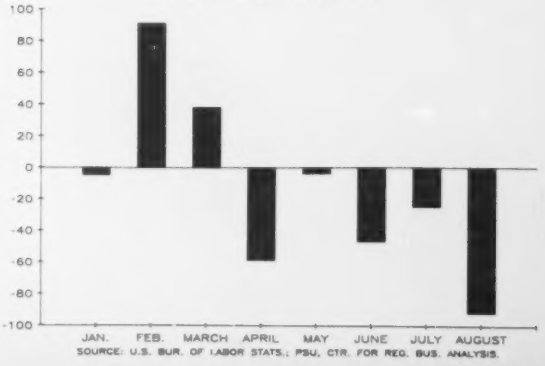
Economic conditions influence the labor force partly through their impact on the population. **Over the course of the 1980s, 175,000 more Pennsylvanians left the Commonwealth than moved into the State.** Research at The Pennsylvania State University suggests that many of those who left were among Pennsylvania's youngest and most highly educated residents, and probably left for economic reasons. These 175,000 residents represent 1.5 percent of the State's 1980 population. Nationwide, net migration

PENNSYLVANIA COMPOSITE INDEX
OF LEADING INDICATORS
(Jan. 1972=100)



SOURCE: PSU, CENTER FOR REGIONAL BUSINESS ANALYSIS.

1990 PA MONTHLY LABOR FORCE GROWTH
(thousands; change from previous month; seasonally adjusted)

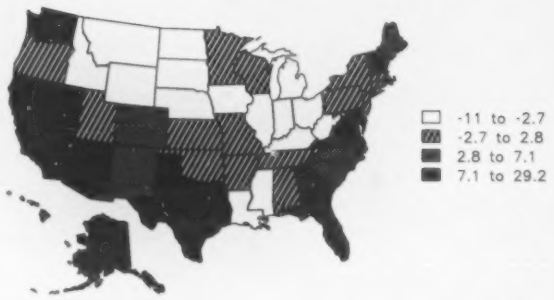


SOURCE: U.S. BUR. OF LABOR STATS.; PSU, CTR. FOR REG. BUS. ANALYSIS.

totaled 2.8 percent of the population. Most of those states losing population through out-migration or turning in a below-average performance are found in the midwest and northeast (map).

While it has been argued in past issues of the *Survey* that record employment readings in recent years may help the economy weather a downturn, employment did stand at record highs before the recession of the mid 1970s and the back-to-back recessions of the early 1980s. Hence, the fact that Pennsylvania employment is hovering at or near record highs after monthly gyrations are averaged out is not a valid defense for those arguing that a recession in Pennsylvania is unlikely. Similarly, on the surface, a jobless rate in the neighborhood of 5 percent does not appear especially alarming. While the rate was considerably higher in the late 1970s,

1980-1989 NET MIGRATION BY STATE
(percent of population)



Economic Activity in Pennsylvania	UNADJUSTED DATA			SEASONALLY ADJUSTED DATA			SEASONALLY ADJUSTED INDEXES (1977 = 100)		
	1990		1989	1990		1989	1990		1989
	July	*Aug.*	*Aug.*	*July*	*Aug.*	*Aug.*	*July*	*Aug.*	*Aug.*
Pennsylvania Industries									
All nonagricultural industries									
No. of wage and salary jobs (thous.)[1]	5,130*	5,116	5,116	5,122	5,112	5,099	112.2*	112.0	111.7
Service Producing									
No. of wage and salary jobs (thous.)	3,821*	3,800	3,764	3,831	3,825	3,788	128.1*	127.9	126.6
Transportation and public utilities	250	250	237	254	255	242	96.9	97.3	92.6
Wholesale trade	284	283	282	282	282	281	127.0*	127.1	126.5
Retail trade	891	893	896	891	892	895	124.3*	124.4	124.8
Finance, insurance & real estate	300	298	301	296	295	297	136.0*	135.4	136.5
Service & miscellaneous	1,422*	1,417	1,386	1,412*	1,413	1,382	163.7*	163.9	160.3
Federal government	148	144	144	147	143	144	114.6	111.9	112.2
State & local government	526*	516	528	549*	542	554	94.2*	93.0	95.0
Goods Producing									
No. of wage and salary jobs (thous.)	1,308	1,314	1,328	1,291	1,287	1,311	82.0	81.8	83.3
Construction	252	253	256	233	234	236	126.7	127.2	128.5
Mining	27	27	27	27	27	27	56.4*	55.6	56.9
Manufacturing	1,029	1,034	1,055	1,029*	1,026	1,047	76.6	76.4	78.0
Durable goods	585*	585	601	583	581	598	72.0*	71.8	73.8
Nondurable goods	445	449	454	446	445	450	83.7	83.6	84.5
Ave. wkly. hrs. worked by prod. workers	40.7*	40.6	40.9	40.9*	40.7	41.0	103.5*	103.0	103.7
Total wkly. person-hours worked (mils.)	28.9*	29.0	29.7	29.1*	28.9	29.7	75.8*	75.3	77.3
Total wkly. payroll (mil. dols.)	319.2*	319.5	316.3	322.4*	320.5	317.4	143.5*	142.6	141.3
Average hourly earnings (dollars)	11.05	11.03	10.63	11.07	11.10	10.69	189.3*	189.7	182.7
Average weekly earnings (dollars)	449.74	447.82	434.77	453.82	451.43	438.25	196.2*	195.1	189.4
Steel production (thous. tons)	1,012	1,069	917	n.a.	n.a.	n.a.	48.2	52.2	44.8
Industrial electric power sales (mil. kwh)	3,905	4,037	3,900	3,843	3,920	3,770	104.1	106.2	102.1
Mining									
Anthracite coal (thous. net tons)	277	345	334	304	280	275	62.3	57.3	56.3
Bituminous coal (thous. net tons)	5,173	6,571	6,178	6,399	6,255	5,805	90.7	88.7	82.3
Construction contracts awarded (mil. dols.)									
Total	801.9	719.9	1,138.2*	743.7	653.6	1,039.1*	231.2	203.2	323.0*
Residential building	332.3	315.8	423.8*	297.5	259.1	343.0*	211.4	184.1	243.7*
Nonresidential building	281.3	243.8	531.1*	289.2	219.9	484.5*	266.5	202.7	446.6*
Nonbuilding (utilities and public works)	188.4	160.3	181.6*	157.0	174.6	211.6*	216.6	240.9	291.9*
Employment of Pennsylvania Residents									
Employed, no. of persons (thous.)	5,664	5,624	5,648	5,563	5,502	5,521	115.8	114.5	114.9
Unemployed									
No. of persons (thous.)	310	253	231	292	276	253	72.9	68.9	63.1
Rate (percentage of labor force)	5.2	4.3	3.9						
Rate, seasonally adjusted				5.0	4.9	4.4			
Civilian labor force, no. of persons (thous.)	5,974	5,877	5,879	5,856	5,779	5,774	112.5	111.0	110.9
Initial claims for unemployment benefits	106,487	87,454	72,789	98,963	114,157	94,483	69.1	79.7	66.0

Consumer Prices, all items	Urban Indexes (1982-84 = 100) 1990 *July*	1990 *August*	1989 *August*	Percentage Change *Month Ago*	*Year Ago*
U.S. city average	130.4	131.6	124.6	0.9	5.6
Philadelphia	136.3	137.3	129.1	0.7	6.4
Pittsburgh	n.a.	127.1	120.8	n.a.	5.2

[1] Total includes workers on strike. * = figure revised n.a. = data not available
SOURCES AND DEFINITIONS OF DATA ARE AVAILABLE ON REQUEST.

prior to the recessions of the early 1980s, it was in this same 5 percent-range prior to the 1974-1975 recession. Also, due to structural changes in the economy, not only in Pennsylvania, but throughout the nation, the jobless rate may not soar as it has in previous recessions.

On the nonagricultural jobs front, seasonally adjusted job levels have declined in six consecutive months through August. At just over 5.1 million, August job totals are essentially unchanged from a year ago. Even growth in the service producing sector appears to be slowing, though August trends are distorted a bit by an unusually large drop in State and local government jobs, perhaps as a result of early terminations in various government-sponsored summer jobs programs. (Caution should also be used in year-ago comparisons in the transportation and public utilities area as August 1989 trends were distorted by a strike in the communications field.) **While service producing jobs are up 46,000 so far this year compared to the first eight months of 1989, this falls well short of the 87,000 average annual gain over the 1982-1989 period. There are no signs of a turnaround in the downtrend in factory jobs which began in 1989. Manufacturing job levels have once again receded to all-time lows.**

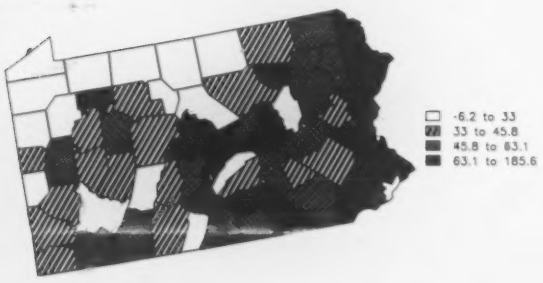
Over the course of the 1980s, the service sector led the State in terms of overall job growth. Between 1980 and 1989, jobs in these industries grew 46 percent Statewide. For the most part, the eastern half of the Commonwealth turned in the strongest performance. Much of western Pennsylvania and a string of counties along the northern tier of the State turned in a below-average performance in terms of service job growth. During the final years of the decade, however, growth was a bit more balanced across the Commonwealth. Western Pennsylvania was home to several counties which turned in above-average service job growth rates (maps).

Pennsylvania's performance relative to the U.S. in terms of nonagricultural job growth was well below-average during the 1980s. Between 1980 and 1989, Pennsylvania's share of total U.S. nonfarm jobs fell from 5.23 percent to 4.73 percent, a drop of over 9.6 percent. Only seven states are characterized by a steeper percentage decline in job share than Pennsylvania. The frostbelt/sunbelt split is apparent in national trends in job shares. Most growth states

CHANGE IN STATE NONFARM JOB SHARES: 1980-1989
(percent)

SOURCE: U.S. BUR. OF LABOR STATS.; PSU, CTR. FOR REG. BUS. ANALYSIS.

PA SERVICE JOB GROWTH BY COUNTY: 1980-1989
(percent)



SOURCE: PA DEPT. OF LABOR AND INDUSTRY; PSU, CTR. FOR REG. BUS. ANALYSIS.

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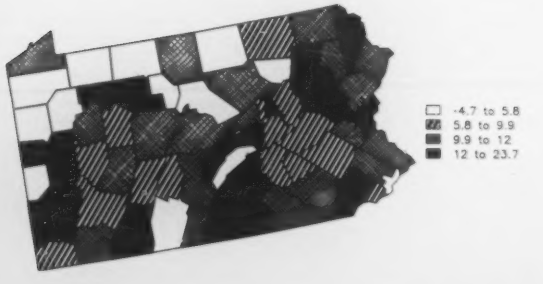

SOURCE: PA DEPT. OF LABOR AND INDUSTRY; PSU, CTR. FOR REG. BUS. ANALYSIS.

Pennsylvania retail sales
(millions of dollars; pct. chg. from year ago)

	July	Pct. chg.	Year-to-date	Pct. chg.
Total	6,725	– 0.7	46,383	1.7
Durables	2,418	– 5.5	16,596	– 0.8
Bldg. mat.	329	3.5	1,938	– 0.6
Auto dlrs.	1,469	– 5.9	9,924	– 3.1
Furniture	309	8.0	2,183	6.5
Other	311	– 21.1	2,551	2.1
Nondurables	4,307	2.2	29,787	3.1
Gen. mdse.	649	2.9	4,494	3.3
Food/grocery	1,392	0.3	9,704	2.5
Gas	410	1.7	2,741	2.3
Apparel	300	– 2.3	2,201	2.3
Eat/drink	864	0.8	5,599	5.2
Drugs	267	13.6	1,804	1.3
Other	425	7.9	3,244	3.4
Seas. adj. total: July		6,771		
June		6,785		

Source: Tot./Dur./Nondur.-U.S. Dept. of Commerce, Bur. of the Census.
Seas. adj. total-PSU, Ctr. for Reg. Bus. Analysis.
Data in the sub-categories of the durable and nondurable groups are subject to relatively large sampling variability. As a result, only pct. changes are shown.

New Pennsylvania motor vehicle registrations
(percent change from year ago)

	Total registrations	Pct. change
July	51,555	– 14.5
1990 YTD	365,964	– 7.7
12-month total	634,724	– 10.1

Source: R.L. Polk & Co.

are located in the west and south. The midwest and northeast regions witnessed declines in job share (map).

Most non-employment measures of economic activity also point to a slowdown in the Pennsylvania economy. While the Pennsylvania Manufacturing Activity Index has increased in both July and August, this indicator of factory production is still off from post-recessionary highs recorded in late 1988 and early 1989. Retail sales in July are off 0.7 percent from a year ago, even before adjustment for price changes. For the year, they are up 1.7 percent, not nearly enough to compensate for the increase in the overall level of prices. Nationwide, retail sales are up 4.2 percent. Trends in the automotive sector, combined with the continued downtrend in new motor vehicle registrations, continue to point to weakness in car sales. Construction activity is weak. Permit authorizations for new residential projects continue to trend down as 1990 will likely result in the weakest showing in ten years. Trends in the value of contract awards also point to considerable softness in the building industries.

Over the course of 1990, it has been argued in the *Pennsylvania Business Survey* that one should not look too negatively upon the downtrend in the State's economic growth. Until now, it has been argued that talk of a recession has been premature. While there were numerous signs of a slowdown, growth was positive. However, recent trends, mostly national and international in scope, suggest that a recession may be on the horizon. The evidence is strong enough to justify a more pessimistic outlook for the Pennsylvania economy. In meterological terms, the first half of 1990 constituted a "recession watch." Conditions have deteriorated enough to now warrant a "recession warning." A recession may be "out there," but where, when, and if it will touch down is still unknown.

— *William D. Anderson*

New Pennsylvania building permit authorizations (percent change from year ago)

	August	Pct. chg.	Year-to-date	Pct. chg.
Residential	2,927	– 32.4	26,304	– 19.2
Nonresidential	1,971	– 11.0	14,903	– 5.1

Source: U.S. Dept. of Commerce, Bureau of the Census.

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